

**BAY AREA NARCOTICS
ENFORCEMENT TEAM (BAYANET)**

Bay City, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
December 31, 2003**



REHMANN ROBSON

Certified Public Accountants

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Bay Area Narcotics Enforcement Team	County Bay
Audit Date 12/31/03	Opinion Date 4/30/04	Date Accountant Report Submitted to State: 8/20/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

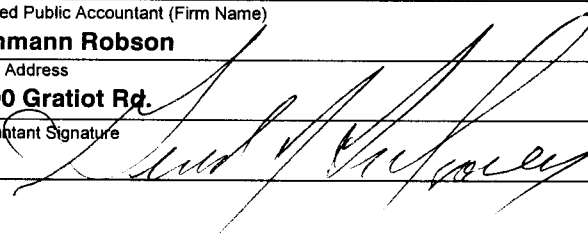
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5800 Gratiot Rd.		City Saginaw	State MI
Accountant Signature 		ZIP 48603	Date 8/20/04

**BAY AREA NARCOTICS
ENFORCEMENT TEAM (BAYANET)**

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

April 30, 2004

To the Board of Directors
Bay Area Narcotics Enforcement
Team (BAYANET)
Saginaw, Bay, Midland, Gladwin,
Isabella and Clare, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the **Bay Area Narcotics Enforcement Team (BAYANET)**, a component unit of Bay County, Michigan, as of and for the year ended December 31, 2003, which collectively comprise BAYANET's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of BAYANET's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the **Bay Area Narcotics Enforcement Team** as of December 31, 2003, and the respective changes in its financial position thereof and the budgetary comparison for the General Fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The **Bay Area Narcotics Enforcement Team** has not presented a Management's Discussion and Analysis (MD&A) as required supplementary information that the *Governmental Accounting Standards Board* has determined is necessary to supplement, although not required to be, a part of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2004, on our consideration of BAYANET's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Rehmann Lohman

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2003

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets			
Cash and cash equivalents	\$ 215,280	\$ -	\$ 215,280
Accounts receivable	30,229	-	30,229
Prepaid items	3,600	-	3,600
Capital assets, net of accumulated depreciation	-	20,456	20,456
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 249,109</u>	<u>20,456</u>	<u>269,565</u>
Liabilities			
Accounts payable	\$ 41,367	\$ -	\$ 41,367
Accrued liabilities	11,756	-	11,756
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>53,123</u>	<u>-</u>	<u>53,123</u>
Fund Balance / Net Assets			
Fund Balance:			
Reserved for prepaid items	3,600	(3,600)	-
Unreserved	192,386	(192,386)	-
	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>195,986</u>	<u>(195,986)</u>	<u>-</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 249,109</u>		
Net Assets:			
Invested in capital assets		20,456	20,456
Unrestricted		195,986	195,986
		<u> </u>	<u> </u>
Total net assets		<u>\$ 216,442</u>	<u>\$ 216,442</u>

The accompanying notes are an integral part of these financial statements.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures			
Public safety	<u>\$ 411,803</u>	<u>\$ (9,359)</u>	<u>\$ 402,444</u>
Program revenues			
Charges for services	399,577	-	399,577
Operating grants and contributions	<u>87,159</u>	<u>-</u>	<u>87,159</u>
Total program revenues	<u>486,736</u>	<u>-</u>	<u>486,736</u>
Net program revenues			<u>84,292</u>
General revenues			
Interest earnings	<u>2,241</u>	<u>-</u>	<u>2,241</u>
Revenues over (under) expenditures	77,174	(77,174)	-
Change in net assets	-	86,533	86,533
Fund balance / net assets			
Beginning of the year	<u>118,812</u>	<u>11,097</u>	<u>129,909</u>
End of the year	<u><u>\$ 195,986</u></u>	<u><u>\$ 20,456</u></u>	<u><u>\$ 216,442</u></u>

The accompanying notes are an integral part of these financial statements.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED DECEMBER 31, 2003

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Forfeitures	\$ 403,600	\$ 403,600	\$ 348,753	\$ (54,847)
Grants - Saginaw Chippewa Tribe	-	-	86,783	86,783
Interest income	-	-	2,241	2,241
Reimbursements	-	-	50,824	50,824
Other	-	-	376	376
Total revenues	403,600	403,600	488,977	85,377
Expenditures				
Wages and payroll taxes	58,000	58,000	96,420	38,420
Office supplies	9,000	9,000	8,839	(161)
Tactical supplies	-	-	4,665	4,665
Narcotics / operational purchases	27,000	27,000	58,085	31,085
Informants	6,000	6,000	9,463	3,463
Investigative	2,500	2,500	285	(2,215)
Office lease and utilities	42,000	42,000	35,542	(6,458)
Communications	29,000	29,000	30,424	1,424
Federal grant shares	115,000	115,000	20,340	(94,660)
Vehicle leases	75,000	75,000	78,890	3,890
Forfeiture costs	8,000	8,000	40,695	32,695
Contracted services	5,000	5,000	9,895	4,895
Equipment repairs	2,500	2,500	72	(2,428)
Vehicle repairs and towing	2,000	2,000	1,427	(573)
Education and training	2,600	2,600	2,850	250
Capital outlay	20,000	20,000	13,848	(6,152)
Other	-	-	63	63
Total expenditures	403,600	403,600	411,803	8,203
Net change in fund balance	-	-	77,174	77,174
Fund balance, beginning of year	118,812	118,812	118,812	-
Fund balance, end of year	\$ 118,812	\$ 118,812	\$ 195,986	\$ 77,174

The accompanying notes are an integral part of these financial statements.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

STATEMENT OF FIDUCIARY NET ASSETS

DECEMBER 31, 2003

	Agency Fund
Assets	
Cash and cash equivalents	<u><u>\$ 253,862</u></u>
Liabilities	
Unadjudicated seizures	<u><u>\$ 253,862</u></u>

The accompanying notes are an integral part of these financial statements.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

1. DESCRIPTION OF THE ENTITY

BAYANET was formed in 1981 as a cooperative, multi-jurisdictional unit of narcotic investigators comprised of personnel from municipal, county, and state law enforcement agencies within the Counties of Saginaw, Bay, Midland, Gladwin, Isabella and Clare.

BAYANET is a discretely presented component unit of the County of Bay, Michigan. Accordingly, the accounting policies of BAYANET conform to generally accepted accounting principles as applicable to governments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Government-wide and fund financial statements

As permitted by GASB Statement No. 34, BAYANET uses an alternative approach reserved for single program governments to present combined government-wide fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. Accordingly, this is presented in the Statement of Net Assets and Governmental Fund Balance Sheet and the Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balances.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The only major fund of BAYANET is the general fund.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. The agency fund uses the accrual basis of accounting also, but does not have a measurement focus.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Modifications from the accrual basis are: (a) revenue is recognized when it becomes measurable and is available as a net current asset and (b) expenditures are recorded when the liability is incurred, except for principal and interest on long-term obligations which are recorded when due. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts presented as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Interest earned on deposits are reported as *general revenues* rather than as program revenues.

Deposits

BAYANET's investment policies are governed by State Statutes. Statutes authorize BAYANET to invest in obligations of the U.S. Treasury and agencies (either individually or in pooled funds), domestic certificates of deposits, commercial paper with prescribed ratings and repurchase agreements. The terms of investments and financial institutions used for investment purposes are determined based upon BAYANET's needs.

Accounts Receivable

Accounts receivable from Isabella County (payable from a grant awarded by the Saginaw Chippewa Indian Tribe of Michigan to BAYANET) of \$30,229 is expected to be collected within one year.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

Capital Assets

Capital assets are comprised of office equipment and are reported as governmental activities in the government-wide financial statements. Capital assets are defined by the board as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Office equipment is depreciated using the straight-line method over estimated useful lives of 4 to 7 years.

Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device during the year. BAYANET approves total budget amounts by function; BAYANET currently has one function, which is Public Safety. Unused appropriations for all items lapse at the end of the year.

BAYANET had expenditures (\$411,803) in excess of budgeted appropriations (\$403,600) at the functional level of \$8,203 for the year ended December 31, 2003.

Donated Services

Substantial services related to the utilization of personnel and personal property are contributed by cooperating law enforcement agencies. The value of these services has not been recognized in the financial statements since the amount is not subject to reasonable estimation. Any legal proceedings resulting from the actions of such personnel or the use of donated personal property are the responsibility of the donor agency.

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

3. DEPOSITS

BAYANET's cash and cash equivalents at December 31, 2003, are as follows:

Cash on hand	\$ 25,000
Cash on deposit with Financial institutions	<u>444,142</u>
Total cash and cash equivalents	<u>\$ 469,142</u>

At December 31, 2003, the book value of the Agency's deposits was \$469,142 with a corresponding bank balance of \$445,741. Qualifying deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Of the bank balance, \$203,202 is insured and the remaining \$242,539 is uninsured and uncollateralized.

BAYANET's deposits are in accordance with statutory authority.

4. LEASE

BAYANET leases office space from SAHASA Realty Company on a month to month basis. Total rent expenditures for the year ended December 31, 2003 were \$14,400.

5. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets being depreciated:				
Office equipment	\$ 47,521	\$ 13,848	\$(16,182)	\$45,187
Less accumulated depreciation for:				
Furniture and equipment	<u>(36,424)</u>	<u>(4,489)</u>	<u>16,182</u>	<u>(24,731)</u>
Governmental activities capital assets, net	<u>\$ 11,097</u>	<u>\$ 9,359</u>	<u>\$ -</u>	<u>\$20,456</u>

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

6. RISK MANAGEMENT

BAYANET is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees and natural disasters. BAYANET carries commercial insurance to cover any potential claims associated with these risks and has had no claims that exceeded the insurance coverage during the past three years.

7. ADJUSTMENTS

Following is an explanation of the adjustments between the governmental fund balance sheet and the government-wide statement of net assets, which reconciles fund balance to net assets:

Fund balance	\$ 195,986
Adjustments:	
Capital assets that are purchased to be used in governmental activities are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets (net of accumulated depreciation) among BAYANET's assets as a whole	<u>20,456</u>
Net assets	<u>\$ 216,442</u>

BAY AREA NARCOTICS ENFORCEMENT TEAM (BAYANET)

Notes To Financial Statements

Following is an explanation of the adjustments between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities, which reconciles the net change in fund balances to the change in net assets:

Net change in fund balance	\$ 77,174
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Adjustments:

Governmental funds report capital outlay as expenditures. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	13,848
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Depreciation expense is reported in the statement of activities, but because depreciation does not require the use of current financial resources, it is not reported as an expenditure in the governmental fund.	<u>(4,489)</u>
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Change in net assets	<u>\$ 86,533</u>
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Beginning net assets for governmental activities were determined as follows:

Fund balance of General fund at December 31, 2002	\$ 118,812
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Adjustments:

Governmental capital assets, as of December 31, 2002	47,521
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Accumulated depreciation on capital assets, as of December 31, 2002	<u>(36,424)</u>
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Net assets, December 31, 2002	<u>\$ 129,909</u>
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

April 30, 2004

To the Board of Directors
Bay Area Narcotics Enforcement
Team (BAYANET)
Saginaw, Bay Midland, Gladwin,
Isabella and Clare Michigan

We have audited the financial statements of *Bay Area Narcotics Enforcement Team (BAYANET)*, a component unit of Bay County, as of and for the year ended December 31, 2003, and have issued our report thereon dated April 30, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether BAYANET's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered BAYANET's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that

misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected with a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Lohman